

FINANCIAL TRENDS IN WASHINGTON STATE CHARTERED CREDIT UNIONS

Financial Data as of December 31, 2002

HIGHLIGHTS

This report summarizes the trends of all state chartered credit unions in Washington, reported as of December 31, 2002. Unless otherwise noted, the change period for the financial ratios and/or financial statistics is from December 31, 2001 to December 31, 2002.

The total number of Washington state chartered credit unions declined from 93 as of December 31, 2001 to 91 as of December 31, 2002.

Key financial indicators are listed below:

- **Assets** increased \$1.72 billion or 12.86%. Assets are \$15.10 billion.
- **Investments** (including cash & cash equivalents) increased \$730 million or 18.39%. Investments are \$4.69 billion.
- **Loans** increased \$896 million or 10.01%. Loans are \$9.9 billion.
- **Delinquent loan** dollars decreased \$5.4 million or 8.3%. Delinquent loans as a percentage of total loans decreased from 0.73% to 0.61%.
- **Net charge offs** increased \$12.9 million or 26.9%. The net charge off to average loan ratio increased from 0.55% to 0.65%.
- **Shares** increased \$1.49 billion or 12.75%. Because shares grew at a faster rate than loans, the loan to share ratio decreased from 76.52% to 74.66%.
- **Net worth** increased \$180.4 million or 14.28%. Net worth is \$1.44 billion. The net worth to assets ratio increased from 9.44% to 9.56%.
- **Profitability** – Net income increased \$74.14 million or 85.6%. ROAA increased from 0.69% for the twelve months ending December 31, 2001 to 1.13% for the twelve months ending December 31, 2002.
- **Operating Expenses** increased from 43.78% of gross income and 3.57% of average assets for the twelve months ending December 31, 2001 to 48.97% of gross income and 3.58% for the twelve months ending December 31, 2002.
- **Gross Income and Cost of Funds** – Gross income decreased from 8.19% of average assets to 7.39% of average assets, and the cost of funds to average assets decreased from 3.48% to 2.23%. Consequently, the average net margin increased from 4.71% to 5.16%.

Asset Trends: Total assets increased \$1.72 billion or 12.86%.

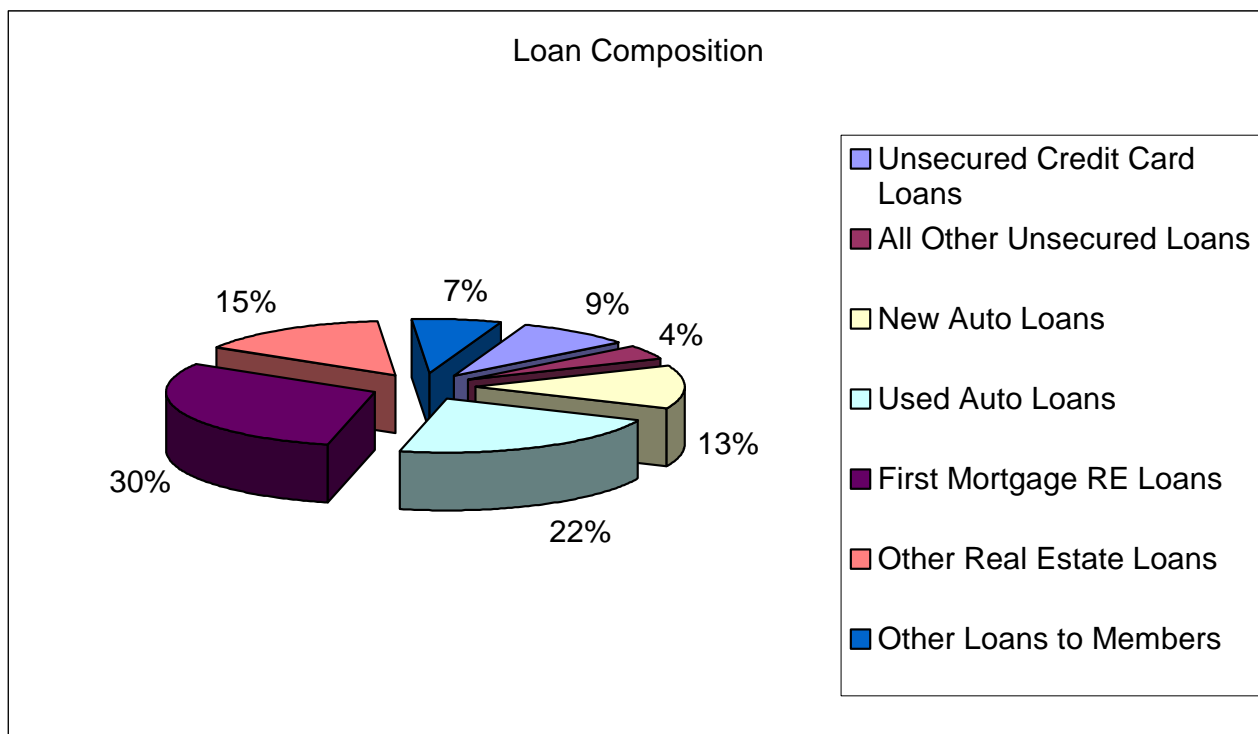
- Loans increased \$896 million or 10.01%. Loans are 65.15% of total assets.
- Investments (including cash & cash equivalents) increased \$730 million or 18.39%. Investments are 31.10% of total assets.
- Fixed assets increased \$22.1 million or 7.4%. Fixed assets are 2.11% of total assets.
- Other assets decreased \$4.99 million or -3.3%. Other assets are 0.98% of total assets.
- The Allowance for Loan & Lease Losses (ALLL) increased \$2.79 million or 3.6%. The aggregate ALLL balance equals 0.53% of total assets, 133.8% of delinquent loans and 131.6% of net charge-offs.
- As of December 31, 2002 cash plus cash equivalents plus short-term investments less than one year divided by total assets was 18.23%.

Asset Growth

<u>CU Asset Size</u>	<u>1/00 to 12/00</u>	<u>1/01 to 12/01</u>	<u>1/01 to 12/02</u>
Over \$500 million	5.86%	11.62%	11.12%
\$100m to \$500 million	6.95%	14.34%	11.33%
\$20m to \$100 million	5.48%	13.70%	4.60%
\$0m to \$20 million	3.06%	11.64%	2.76%

Loan Trends: Total loans increased \$896 million or 10.01% during the twelve-month period ending December 31, 2002. Because total loans increased slower than total assets, the total loans to total assets ratio decreased from 66.83% to 65.15%.

- Unsecured credit cards decreased \$26.6 million or -3.02%.
- All other unsecured loans decreased \$14.1 million or -3.58%.
- New auto loans decreased \$94.2 million or -6.88%.
- Used auto loans increased \$199.1 million or 10.1%.
- First mortgage real estate loans increased \$824.6 million or 38.4%.
- Other real estate loans increased \$16.3 million or 1.1%.
- Other loans decreased \$9.1 million or -1.31%.
- Fixed rate first mortgages increased \$399.9 million or 29.3%. Fixed rate first mortgage loans comprise 59.4% of all first mortgage real estate loans.
- Loans held for sale increased from zero to \$67.56 million.



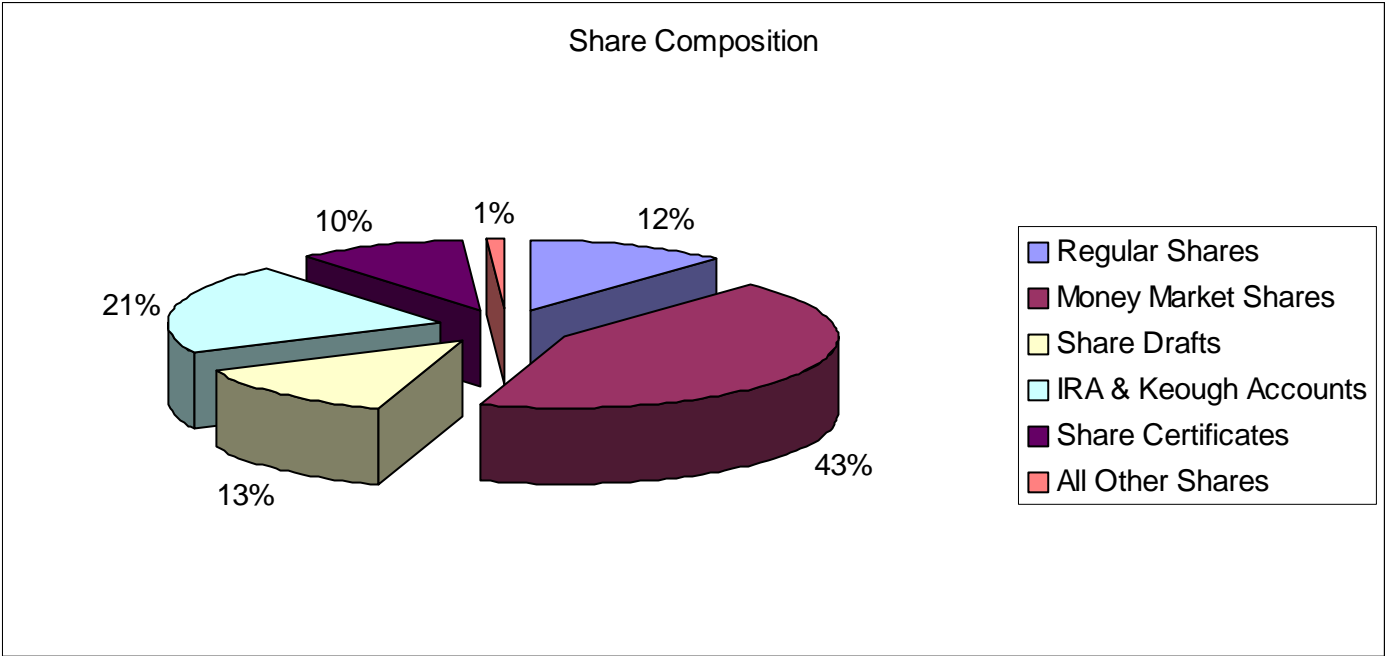
Delinquent Loan Trends: Total delinquent loan dollars decreased \$5.4 million to \$60.0 million. Because delinquent loans decreased while total loans increased, the delinquent loans to total loans ratio decreased from 0.73% to 0.61%.

Net Charge-Off Trends: Total net charge-offs increased \$12.9 million to \$61.0 million. Because net charge-offs increased faster than average loans, the net charged-off loans to average loan ratio increased from 0.55% to 0.65%.

Bankruptcy Trends: Total bankruptcy loans increased \$8.9 million to \$58.6 million. This is an 17.9% increase over the previous year-end. Bankruptcy loans as a percent of delinquent loans increased from 75.97% as of December 31, 2001 to 97.73% as of December 31, 2002.

Share Trends: Shares increased \$1.49 billion or 12.75% and total \$13.18 billion. Because loans grew at a slower rate than shares, the loan to share ratio decreased from 76.52% as of December 31, 2001 to 74.66% as of December 31, 2002.

- Regular shares and deposits increased \$977.9 million or 20.7%.
- Money market shares increased \$322.3 million or 22.8%.
- Share drafts increased \$145.2 million or 9.7%.
- IRA & Keogh accounts increased \$53.8 million or 4.4%.
- Share certificates decreased \$4.63 million or –0.2%.
- All other shares (including non-member deposits) decreased \$3.64 million or –17.33%.
- The cost of funds to average assets ratio decreased from 3.44% to 2.22%.



Capital Trends: Net worth increased \$182 million or 14.3%, and the net worth to assets ratio increased from 9.44% to 9.56%.

Net Worth/Total Assets Ratios (as of 12/31/01 and 12/31/02)

<u>CU Asset Size</u>	<u>12/31/01</u>	<u>12/31/02</u>
Over \$500 million	7.93%	8.77%
\$100m to \$500 million	10.19%	10.24%
\$20m to \$100 million	10.71%	11.16%
\$0m to \$20 million	10.30%	10.99%

Profitability Trends: The return on average assets (ROAA) increased from 0.68% for the 12 months ending December 31, 2001 to 1.13% for the 12 months ending December 31, 2002.

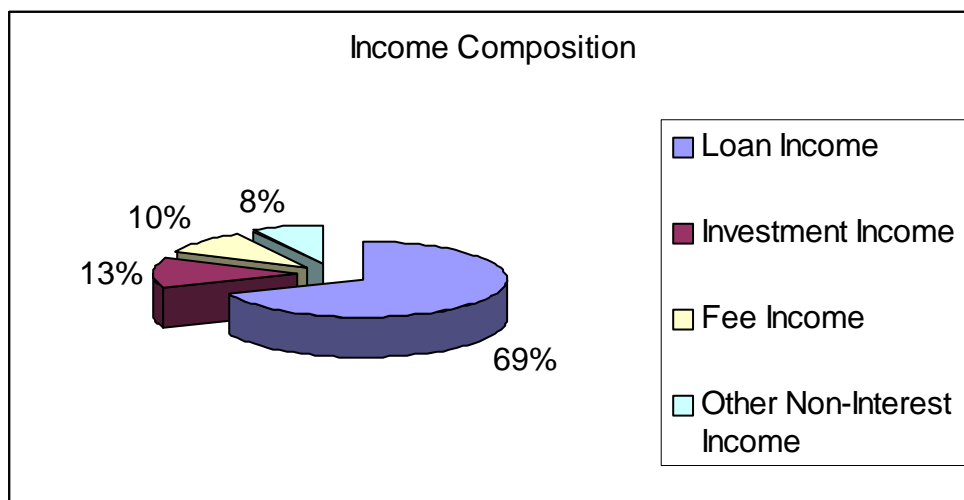
ROAA Trends

<u>CU Asset Size</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Over \$500 mil	0.79%	0.64%	0.52%	0.52%	1.15%
\$100m to \$500m	0.95%	0.95%	0.78%	0.78%	1.17%
\$20m to \$100m	0.88%	0.80%	0.86%	0.86%	0.84%
\$0m to \$20m	0.76%	0.72%	0.92%	0.92%	0.81%

Ratio	As of 12/31/01	As of 12/31/02	Effect on ROAA
Gross Income	8.19%	7.39%	-80bp
Cost of Funds	3.48%	2.23%	+125bp
Operating Expenses	3.57%	3.58%	-1bp
Provision for Loan Loss	0.46%	0.45%	+1bp
ROAA	0.69%	1.13%	+45bp

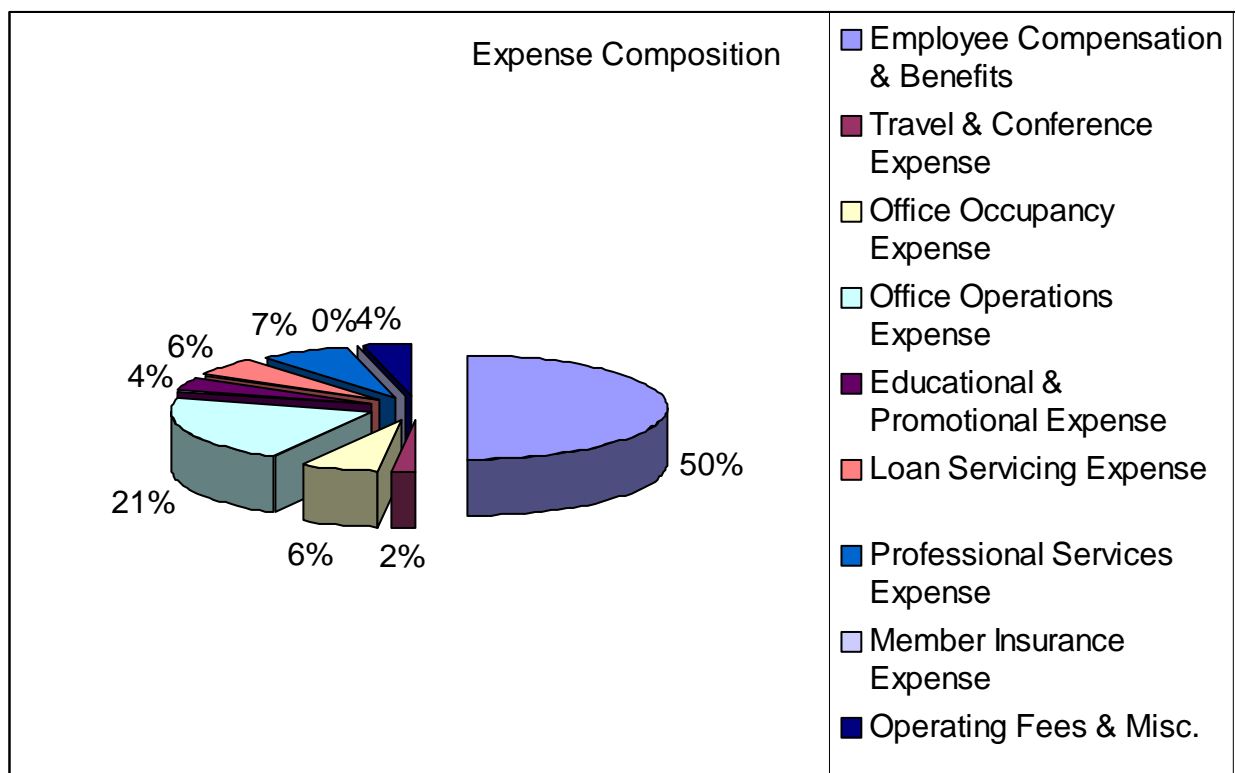
Income Trends: Gross income increased \$17 million to \$1.05 billion. This is an increase of 1.66%. Because average assets increased faster than gross income, the gross income to average assets ratio decreased from 8.05% to 7.39%.

- Loan income increased \$5.5 million or 0.77%.
- Investment income decreased \$22.5 million or -13.8%.
- Fee income increased \$16.2 million or 19.5%.
- Other non-interest income increased \$17.9 million or 26.6%.



Expense Trends: Operating expenses increased \$59.2 million to \$508.8 million or 13.2%. Because operating expenses increased faster than gross income, the operating expense ratios increased from 43.78% of gross income for the 12 months ending December 31, 2001 to 48.97% of gross income for the 12 months ending December 31, 2002.

- Employee compensation increased \$28.3 million or 12.7%.
- Travel and conference expense increased \$928 thousand or 11.3%.
- Office occupancy expense increased \$3.6 million or 12.5%.
- Office operations expense decreased \$4.8 million or 4.3%.
- Educational and promotional expense increased \$3.1 million or 18.8%
- Loan servicing expense increased \$7.6 million or 33.4%.
- Professional services expense increased \$14.3 million or 65.1%.
- Member insurance expense decreased \$29 thousand or -3.9%.
- Operating fees and miscellaneous expense increased \$6.2 million or 39.5%.



- This report was prepared by Margaret Ross and Doug Lacy-Roberts.
- 5300 Call Report data was used to prepare this report.